

**Report of the
PUBLIC EMPLOYEE RETIREMENT
ADMINISTRATION COMMISSION
on the Examination of the
Danvers
Contributory Retirement System
For the Four Year Period
January 1, 1999 - December 31, 2002
PERAC 02: 09-030-12**

TABLE OF CONTENTS

Letter from the Executive Director.....	2
Explanation of Findings and Recommendations.....	3
Statement Of Ledger Assets And Liabilities.....	6
Statement Of Changes In Fund Balances.....	7
Statement Of Income.....	8
Statement Of Disbursements.....	9
Investment Income	10
Statement Of Allocation Of Investments Owned.....	11
Supplementary Investment Regulations.....	12

Notes to Financial Statements:

Note 1 - The System.....	13
Note 2 - Significant Accounting Policies.....	14
Note 3 - Supplementary Membership Regulations.....	15
Note 4 - Administration Of The System.....	18
Note 5 - Actuarial Valuation And Assumptions.....	19
Note 6 - Membership Exhibit.....	20

June 10, 2004

The Public Employee Retirement Administration Commission has completed an examination of the **Danvers** Retirement System pursuant to G.L. c. 32, s. 21. The examination covered the period from January 1, **1999** to December 31, **2002**. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiner James Ryan who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton
Executive Director

Danvers Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

1. Board Attendance and Signatures:

A review of minutes from the Board meetings from January 1st 1999 to June 25th 2003 disclosed that there were seventeen instances in which an attending Board member did not sign the minutes. Furthermore, in 2001 two Board members did not attend four Board meetings each, and in 2002 one of those members also missed five Board meetings. This equates to a thirty-three to forty-two percent absentee rate.

Recommendation:

Members of the Board who attend the meeting must attest to the minutes by individually signing the documented results of each Board meeting. Furthermore, it is the fiduciary duty of all Board members to participate and attend Board meetings each month. Board members should limit absences.

Board Response:

Members of the Board regularly sign the minutes of Board meetings for those meetings that they attend. Board members are aware of their fiduciary responsibility to participate and attend monthly meetings.

2. Cash:

The most recent bank reconciliation for the Fleet checking account for the period ending July 31, 2003 indicated that there was a \$965.04 unexplained variance between the adjusted bank balance and the general ledger (GL). The same variance also existed at December 31, 2002.

Recommendation:

Prepare a journal entry to adjust the GL balance to agree to the adjusted bank balance.

Board Response:

The journal entry was made per the audit recommendation.

3. Annuity Reserve Account:

A review of the transactions affecting the balance in the annuity reserve account over the four-year period from January 1, 1999 to December 31, 2002 indicated that the account balance was overstated by \$1,158.33. This was a direct result of overstated interest income.

Recommendation:

Prepare a journal entry to adjust the GL balance to the corrected balance.

Danvers Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONTINUED)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

Board Response:

The journal entry was made per the audit recommendation.

4. Annuity Savings Account:

A review of the transactions affecting the balance in the annuity savings account over the four-year period from January 1, 1999 to December 31, 2002 indicated that the account balance was understated by \$5,785.27. This was a direct result of understated interest income attributed to member annuity savings account balances.

Recommendation:

Prepare a journal entry to adjust the GL balance to the corrected balance.

Board Response:

The journal entry was made per the audit recommendation.

5. Annual Statement:

A review of the 12/31/02 and 12/31/01 Annual Statements revealed the following discrepancies between the various financial reports, certified asset listing, and GL:

The 12/31/02 GL balances for Fixed Income securities and Equities was out of balance with the State Street Custodian Statement by \$40,042. It was brought to PERAC Audit's attention that the variance was brought on by a TACS Reporting system error in the beginning investment market values. The problem has since been corrected by TACS.

Realized and Unrealized Gains and Losses reported on the 12/31/02 and 12/31/01 Annual Statement supporting schedules were not in agreement and could not be reconciled to the GL and State Street Custodian Statement. For example, the 2002 Annual Statement Schedule 6 "Net Unrealized Loss" was out of balance with the GL by \$361,266, and the 2001 Annual Statement Schedule 6 "Net Unrealized Gain" was out of balance with the GL by \$285,174.

Recommendation:

Due care should be observed when preparing the Annual Statement which reports on the financial condition of the Danvers Retirement System. Supporting schedules on the Annual Statement should accurately reflect their corresponding year - end GL balances.

Prepare a journal entry to adjust the Fixed Income Securities and Equities GL balances by \$40,042 to equal the corrected balance.

Danvers Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONTINUED)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

Board Response:

The journal entry was made per the audit recommendation.

Final Determination:

PERAC audit staff will follow-up in six (6) months to ensure appropriate actions have been taken regarding all findings.

Danvers Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2002**

FOR THE PERIOD ENDING DECEMBER 31,				
ASSETS	2002	2001	2000	1999
Cash	\$1,837,051	\$2,346,963	\$2,264,419	\$2,206,605
Short Term Investments				
Fixed Income Securities (at book value)	26,573,512	28,079,195	29,186,520	23,072,652
Equities	31,570,782	35,984,883	40,716,679	39,042,761
Interest Due and Accrued	281,180	306,922	449,351	148,606
Accounts Receivable	103,195	197,785	148,158	327,427
Accounts Payable	(277,833)	(419,304)	(554,770)	(303,904)
TOTAL	<u>\$60,087,887</u>	<u>\$66,496,444</u>	<u>\$72,210,357</u>	<u>\$64,494,146</u>
FUND BALANCES				
Annuity Savings Fund	\$14,204,808	\$13,533,855	\$13,189,096	\$12,923,282
Annuity Reserve Fund	7,086,214	6,957,108	6,802,785	6,345,439
Pension Fund	7,630,941	9,136,498	9,849,477	11,176,595
Military Service Fund	943	1,586	1,560	1,528
Expense Fund	0	0	0	0
Pension Reserve Fund	31,164,980	36,867,397	42,367,438	34,047,302
TOTAL	<u>\$60,087,887</u>	<u>\$66,496,444</u>	<u>\$72,210,357</u>	<u>\$64,494,146</u>

Danvers Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2002**

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (1999)	\$12,965,346	\$5,566,968	\$11,927,021	\$1,495	\$89,443	\$29,832,244	\$60,382,518
Receipts	1,461,298	177,796	3,311,245	33	210,738	4,215,058	9,376,169
Interfund Transfers	(1,261,751)	1,261,751	0	0	0		0
Disbursements	(241,611)	(661,077)	(4,061,672)	0	(300,181)	0	(5,264,541)
Ending Balance (1999)	12,923,282	6,345,439	11,176,595	1,528	0	34,047,302	64,494,146
Receipts	1,568,387	198,542	3,199,861	32	450,218	8,316,100	13,733,139
Interfund Transfers	(1,025,317)	1,021,281	0	0	0	4,036	0
Disbursements	(277,256)	(762,476)	(4,526,979)	0	(450,218)	0	(6,016,928)
Ending Balance (2000)	13,189,096	6,802,785	9,849,477	1,560	0	42,367,438	72,210,357
Receipts	1,647,162	207,135	4,087,441	25	456,376	(5,501,765)	896,374
Interfund Transfers	(751,913)	750,190	0	0	0	1,723	0
Disbursements	(550,489)	(803,002)	(4,800,420)	0	(456,376)	0	(6,610,287)
Ending Balance (2001)	13,533,855	6,957,108	9,136,498	1,586	0	36,867,397	66,496,444
Receipts	1,619,864	208,223	3,538,373	37	455,179	(5,702,417)	119,259
Interfund Transfers	(735,730)	736,409	0	(679)	0	0	(0)
Disbursements	(213,181)	(815,526)	(5,043,930)	0	(455,179)	0	(6,527,816)
Ending Balance (2002)	<u>\$14,204,808</u>	<u>\$7,086,214</u>	<u>\$7,630,941</u>	<u>\$943</u>	<u>\$0</u>	<u>\$31,164,980</u>	<u>\$60,087,887</u>

Danvers Retirement System

STATEMENT OF INCOME

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2002**

	FOR THE PERIOD ENDING DECEMBER 31,			
	2002	2001	2000	1999
Annuity Savings Fund:				
Members Deductions	\$1,385,726	\$1,300,721	\$1,148,913	\$1,103,574
Transfers from other Systems	47,097	101,426	145,823	29,536
Member Make Up Payments and Redeposits	10,487	10,393	19,274	62,757
Investment Income Credited to Member Accounts	<u>176,555</u>	<u>234,621</u>	<u>254,376</u>	<u>265,431</u>
Sub Total	<u>1,619,864</u>	<u>1,647,162</u>	<u>1,568,387</u>	<u>1,461,298</u>
Annuity Reserve Fund:				
Investment Income Credited Annuity Reserve Fund	<u>208,223</u>	<u>207,135</u>	<u>198,542</u>	<u>177,796</u>
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	44,043	45,350	41,178	40,481
Received from Commonwealth for COLA and				
Survivor Benefits	395,532	191,544	191,544	383,087
Prin Adj Account Amort Gain	0	803,626	0	0
Pension Fund Appropriation	<u>3,098,798</u>	<u>3,046,921</u>	<u>2,967,139</u>	<u>2,887,677</u>
Sub Total	<u>3,538,373</u>	<u>4,087,441</u>	<u>3,199,861</u>	<u>3,311,245</u>
Military Service Fund:				
Contribution Received from Municipality on Account				
of Military Service	0	0	0	0
Investment Income Credited Military Service Fund	<u>37</u>	<u>25</u>	<u>32</u>	<u>33</u>
Sub Total	<u>37</u>	<u>25</u>	<u>32</u>	<u>33</u>
Expense Fund:				
Expense Fund Appropriation	167,617	167,005	149,025	116,038
Investment Income Credited to Expense Fund	<u>287,562</u>	<u>289,371</u>	<u>301,193</u>	<u>94,700</u>
Sub Total	<u>455,179</u>	<u>456,376</u>	<u>450,218</u>	<u>210,738</u>
Pension Reserve Fund:				
Federal Grant Reimbursement	8,207	0	0	0
Pension Reserve Appropriation	0	0	0	0
Interest Not Refunded	1,959	10,202	3,312	6,068
Miscellaneous Income	3,539	0	0	0
Excess Investment Income	<u>(5,716,121)</u>	<u>(5,511,966)</u>	<u>8,312,788</u>	<u>4,208,990</u>
Sub Total	<u>(5,702,417)</u>	<u>(5,501,765)</u>	<u>8,316,100</u>	<u>4,215,058</u>
TOTAL RECEIPTS	<u>\$119,259</u>	<u>\$896,374</u>	<u>\$13,733,139</u>	<u>\$9,376,169</u>

Danvers Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2002**

FOR THE PERIOD ENDING DECEMBER 31,				
	2002	2001	2000	1999
Annuity Savings Fund:				
Refunds to Members	\$119,966	\$222,512	\$90,632	\$79,790
Transfers to other Systems	<u>93,216</u>	<u>327,977</u>	<u>186,624</u>	<u>161,821</u>
Sub Total	<u>213,181</u>	<u>550,489</u>	<u>277,256</u>	<u>241,611</u>
Annuity Reserve Fund:				
Annuities Paid	815,526	796,200	747,090	661,077
Option B Refunds	<u>0</u>	<u>6,802</u>	<u>15,387</u>	<u>0</u>
Sub Total	<u>815,526</u>	<u>803,002</u>	<u>762,476</u>	<u>661,077</u>
Pension Fund:				
Pensions Paid				
Regular Pension Payments	3,391,473	3,248,587	3,000,225	2,633,596
Survivorship Payments	160,029	151,677	157,539	160,214
Ordinary Disability Payments	45,699	43,728	43,728	43,728
Accidental Disability Payments	417,658	416,421	420,383	425,838
Accidental Death Payments	171,469	172,247	181,969	189,271
Section 101 Benefits	18,000	18,000	16,000	12,000
3 (8) (c) Reimbursements to Other Systems	151,968	136,576	132,765	143,270
State Reimbursable COLA's Paid	687,634	613,184	574,369	453,754
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>5,043,930</u>	<u>4,800,420</u>	<u>4,526,979</u>	<u>4,061,672</u>
Military Service Fund:				
Return to Municipality for Members Who				
Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:				
Board Member Stipend	0	0	0	0
Salaries	66,031	60,121	39,505	38,523
Legal Expenses	960	0	672	0
Medical Expenses	0	0	0	0
Travel Expenses	385	1,153	753	678
Administrative Expenses	60,538	55,284	62,062	58,498
Furniture and Equipment	9,909	2,416	0	0
Management Fees	291,875	300,885	320,544	186,537
Custodial Fees	25,481	27,016	26,682	15,945
Consultant Fees	<u>0</u>	<u>9,500</u>	<u>0</u>	<u>0</u>
Sub Total	<u>455,179</u>	<u>456,376</u>	<u>450,218</u>	<u>300,181</u>
TOTAL DISBURSEMENTS	<u>\$6,527,816</u>	<u>\$6,610,287</u>	<u>\$6,016,928</u>	<u>\$5,264,541</u>

Danvers Retirement System

INVESTMENT INCOME

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2002**

	FOR THE PERIOD ENDING DECEMBER 31,			
	2002	2001	2000	1999
Investment Income Received From:				
Cash	\$539	\$928	\$118,766	\$107,626
Short Term Investments	0	0	0	6,492
Fixed Income	1,651,758	1,902,820	1,747,253	2,283,711
Equities	389,881	485,451	353,130	309,722
Pooled or Mutual Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Commission Recapture	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL INVESTMENT INCOME	<u>2,042,178</u>	<u>2,389,199</u>	<u>2,219,149</u>	<u>2,707,551</u>
Plus:				
Increase in Amortization of Fixed Income Securities	0	0	852,652	0
Realized Gains	382,390	335,351	2,890,277	181,780
Unrealized Gains	378,862	50,960	6,571,793	9,632,590
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>281,180</u>	<u>306,922</u>	<u>449,351</u>	<u>148,606</u>
Sub Total	<u>1,042,432</u>	<u>693,234</u>	<u>10,764,073</u>	<u>9,962,976</u>
Less:				
Decrease in Amortization of Fixed Income Securities	0	0	0	0
Paid Accrued Interest on Fixed Income Securities	(146,276)	(198,173)	(300,865)	(729,002)
Realized Loss	(5,323,008)	(7,215,724)	(3,466,821)	(4,469,899)
Unrealized Loss	(2,352,147)	0	0	(2,346,959)
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(306,922)</u>	<u>(449,351)</u>	<u>(148,606)</u>	<u>(377,716)</u>
Sub Total	<u>(8,128,354)</u>	<u>(7,863,247)</u>	<u>(3,916,291)</u>	<u>(7,923,577)</u>
NET INVESTMENT INCOME	<u>(5,043,745)</u>	<u>(4,780,814)</u>	<u>9,066,931</u>	<u>4,746,950</u>
Income Required:				
Annuity Savings Fund	176,555	234,621	254,376	265,431
Annuity Reserve Fund	208,223	207,135	198,542	177,796
Military Service Fund	37	25	32	33
Expense Fund	<u>287,562</u>	<u>289,371</u>	<u>301,193</u>	<u>94,700</u>
TOTAL INCOME REQUIRED	<u>672,376</u>	<u>731,152</u>	<u>754,143</u>	<u>537,960</u>
Net Investment Income	<u>(5,043,745)</u>	<u>(4,780,814)</u>	<u>9,066,931</u>	<u>4,746,950</u>
Less: Total Income Required	<u>672,376</u>	<u>731,152</u>	<u>754,143</u>	<u>537,960</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>(\$5,716,121)</u>	<u>(\$5,511,966)</u>	<u>\$8,312,788</u>	<u>\$4,208,990</u>

Danvers Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

	BOOK VALUE*	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash	\$1,837,051	\$1,837,051	3.06%	100
Short Term	26,573,512	26,573,512	44.30%	100
Fixed Income			0.00%	40 - 80
Equities	31,570,782	31,570,782	52.63%	40
GRAND TOTALS	<u>\$59,981,345</u>	<u>\$59,981,345</u>	<u>100.00%</u>	

* The book value differs from the market value for individually owned Fixed Income Securities which are valued at amortized cost which is the original cost of the investment plus or minus any bond discount or bond premium calculated ratably to maturity. All other investments are reflected at their quoted market value.

For the year ending December 31, **2002**, the rate of return for the investments of the **Danvers** Retirement System was -7.79%. For the five year period ending December 31, **2002**, the rate of return for the investments of the **Danvers** Retirement System averaged 4.39%. For the seventeen-year period ending December 31, **2002**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Danvers** Retirement System was 9.06%.

Danvers Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

The **Danvers** Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on :

May 2, 1996

20.03(1) Equity investments shall not exceed 50% of the total market value of the portfolio at the time of purchase.

Danvers Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all **Danvers** Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

Danvers Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

Danvers Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The **Danvers** Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

December 28, 1984

1) To be considered for membership applicant must be:

Regularly employed for 20 hours or more each week.

Be regularly employed with a stated hourly or yearly rate of compensation.

Danvers Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

2) Creditable Service:

One years credit is to be granted for every (5) years of service for Call Firemen, up to a maximum of five years of creditable service, provided that such service as Call Firemen shall only be credited if such Call Firemen were later appointed as permanent members of the fire department.

All employed members whose regular work schedule for the calendar year is less than (40) hours per week, shall be given creditable service on a pro-rated basis on the average hours worked for the calendar year, except those employees specifically covered by Chapter 32, s.4 (2) (b) or any special law.

3) Benefits to Dependents who have attained age 18:

Dependents benefits cease at age 21 as stated by G.L. c.32, s.12B.

Benefits to be paid through date of graduation from college or through last day of schooling if dependent does not complete college, provided that all such dependent benefits must cease at or before age 21, regardless of date of graduation or last day of schooling.

Contact the parent/guardian to provide the Board with certification of attendance from the school and inform the parent/guardian of their responsibility to keep the Board informed regarding the dependent's student status.

In order to facilitate the application of such provisions, which relate to dependent benefits, this Division has included a sanitized copy of an advisory opinion pertaining to such benefits.

4) Policy for determining annual wage for computing allowance under Veteran's Act, G.L. c.32, s.56:

Shift differential to be computed on the actual number of shifts worked in the (12) twelve month period preceding the date of retirement.

Holiday pay will be figured at 1/5 of weekly rate for the number of paid holidays in a calendar year.

Danvers Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

August 14, 1985

The approved regulation number 1 was amended by adding the following:

Notwithstanding the foregoing, teacher aides who are regular employees working a full school year for a minimum of 20 hours or more each week and are permanent employees with a stated hourly or yearly rate of compensation shall be eligible for membership. Failure to comply with any of the foregoing criteria shall render the individual ineligible for membership. Excluded from membership are teachers aides who are employed on a one-year basis.

May 15, 2003

Pursuant to the authority vested in the Commission under G.L. c. 7, § 50, the Board's supplementary rule regarding Authorization for Travel and Travel Related Expenses is approved.

Danvers Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the Town Accountant who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: Leonard A. Marshall

Appointed Member: Wayne P. Marquis Term Expires: 11/26/04

Elected Member: Robert J. Cyr Term Expires: 06/30/05

Elected Member: Dana M. Hagan Term Expires: 06/30/05

Appointed Member: Paul F. Ferguson Term Expires: 01/01/04

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex officio Member:)	\$10,000,000.00
Elected Member:)	CRAY-DOWD INSURANCE
		AGENCY, INC
Appointed Member:)	
Staff Employee:)	

Danvers Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by **Buck Consultants, Inc** as of **January 1, 2003**.

The actuarial liability for active members was	\$41,067,747
The actuarial liability for retired members was	<u>55,345,827</u>
The total actuarial liability was	96,413,574
System assets as of that date were (actuarial value)	<u>72,105,466</u>
The unfunded actuarial liability was	<u>\$24,308,108</u>
 The ratio of system's assets to total actuarial liability was	 74.8%
As of that date the total covered employee payroll was	\$17,105,250

The normal cost for employees on that date was 7.67% of payroll

The normal cost for the employer was 3.88% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.00% per annum
Rate of Salary Increase: 3.0% 2003-2006, 4.0% 2007-2010, 4.75% thereafter

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2003

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/03	\$ 72,105,466	\$ 96,413,574	\$ 24,308,108	74.8%	\$ 17,105,250	142.1%
1/1/01	\$ 72,004,870	\$ 86,832,829	\$ 14,827,959	82.9%	\$ 15,110,384	98.1%
1/1/98	\$ 49,283,745	\$ 69,977,307	\$ 20,693,562	70.4%	\$ 13,763,498	150.4%
1/1/96	\$ 41,273,922	\$ 59,404,010	\$ 18,130,088	69.5%	\$ 12,566,382	144.3%

Danvers Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Superannuation	8	7	15	14	17	11	2	19	14	11
Ordinary Disability	1	0	0	0	1	0	0	0	0	0
Accidental Disability	0	0	1	0	0	0	0	0	0	0
Total Retirements	9	7	16	14	18	11	2	19	14	11
 Total Retirees, Beneficiaries and Survivors	 398	 388	 400	 404	 407	 417	 417	 416	 413	 425
 Total Active Members	 380	 374	 397	 401	 401	 432	 435	 456	 442	 437
 Pension Payments										
Superannuation	\$1,767,549	\$1,752,866	\$1,866,385	\$2,029,568	\$2,200,725	\$2,305,103	\$2,633,596	\$3,000,225	\$3,248,587	\$3,391,473
Survivor/Beneficiary Payments	119,922	127,920	146,016	154,119	169,182	167,917	361,483	355,508	341,924	349,498
Ordinary Disability	47,547	49,456	49,536	49,536	55,927	43,233	43,728	43,728	43,728	45,699
Accidental Disability	431,440	417,925	398,121	411,189	399,137	400,248	425,838	420,383	416,421	417,658
Other	<u>488,021</u>	<u>572,147</u>	<u>595,941</u>	<u>670,597</u>	<u>701,227</u>	<u>733,909</u>	<u>597,027</u>	<u>707,135</u>	<u>749,760</u>	<u>839,602</u>
Total Payments for Year	<u>\$2,854,479</u>	<u>\$2,920,314</u>	<u>\$3,055,999</u>	<u>\$3,315,009</u>	<u>\$3,526,198</u>	<u>\$3,650,410</u>	<u>\$4,061,672</u>	<u>\$4,526,979</u>	<u>\$4,800,420</u>	<u>\$5,043,930</u>